

## SUBCOMMITTEE NO. 4

## Agenda

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### Agenda – Part B

Wednesday, May 18, 2005

1:30 p.m.

Room 2040

(Consultant: Brian Annis)

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## Issues Proposed for Consent / Vote Only

### **1100 California Science Center**

1. **Los Angeles Coliseum Lease Negotiations (May Finance Letter (FL)).** The Administration requests an augmentation of \$150,000 (Exposition Park Improvement Fund) to reflect the costs for legal services related to the Los Angeles Coliseum lease negotiations. The Coliseum is in Exposition Park, and is budgeted in the Exposition Park Management Program within the Science Center budget item. The State's 50-year lease with the Los Angeles Memorial Coliseum Commission (Commission), a Joint Powers Authority, expires December 31, 2005. The Commission exercised their right to renew the lease for 49 years, and negotiations are ongoing. The State and the Commission are also engaged in discussions with the National Football League on the use of the Coliseum.
2. **Lease Revenue Bond Debt (May FL).** The Administration requests adjustments to the General Fund budget bill appropriation for Lease Revenue Bond debt service to reflect a decrease of \$7,000 to the item, include a decrease in reimbursements of \$3,000.
3. **Science Center Phase II (May FL).** The Administration requests trailer bill language and a budget bill reversion to allow, in effect, the private/non-profit California Science Center Foundation (Foundation) to fund anticipated cost escalations for the Science Center Phase II building construction project. Recently, the project received bids that were in excess of legislatively-authorized appropriation levels. As an alternative to the state funding, the Foundation has agreed to fully fund the construction phase of this project as long as the state agrees to lease the state-owned site to the Foundation and enter into a lease-purchase agreement to lease the Phase II facility from the Foundation upon completion of the project. The intent is that the value of the lease payments would be no more than what the state would have paid in annual debt service payments for the project. Specifically, the requested trailer bill language would authorize the California Science Center to enter into a site and lease-purchase agreement with the Foundation for the purpose of developing, constructing, equipping, furnishing and funding the Phase II project.

### **1110 Board of Barbering and Cosmetology**

4. **January Governor's Budget.** The Governor's January Budget proposed funding of \$14.4 million (special fund) and 82.1 positions for the Board of Barbering and Cosmetology. The Board's budget was held open at the April 6, 2005, hearing to address a constituent concern. No Finance Letters have been submitted by the Administration for the Board. Staff recommends approving the proposed budget.

**1110 Medical Board**

5. **Conforming Action to Subcommittee #3.** The Senate Budget Subcommittee #3 approved a transfer of \$3 million from the Managed Risk Medical Insurance Program to the Medically Underserved Account, Contingent Fund of the Medical Board of California. The Medically Underserved Account was created to repay student loans for physicians who have committed to work in underserved areas, as per agreements made with physicians under the terms of the Steven M. Thompson Physician Corps Loan Repayment Program. Conforming action is needed to amend statute (Business and Professions Code 2154.4) to include the \$3 million in transferred funds in the existing continuous appropriation authority. The trailer bill language is Attachment I to this agenda.

**1111 Office of Privacy Protection**

6. **Staff Augmentation (May FL).** The Administration proposes an augmentation of \$446,000 (General Fund) and 4.7 positions to implement the recommendations resulting from the statewide summit entitled "Locking Up the Evil Twin: A Summit on Identity Theft Solutions" held on March 1, 2005. This augmentation would allow the Office of Privacy Protection to increase identity theft education and outreach efforts to consumers, community-based organizations, the legal community, institutions of higher learning, and law enforcement agencies. This request would more than double the existing staff of 3.8 positions.

**1920 California State Teachers Retirement Board**

7. **CalSTRS Budget.** The Subcommittee rejected the Governor's proposal to eliminate the State two-percent contribution for teachers' retirement at the May 11 hearing. The remainder of the CalSTRS budget was held open while a concern of another Senator was being addressed. Staff recommends the Subcommittee approve the remainder of the CalSTRS budget (excluding the teachers contribution proposal which has already been rejected).

**2150 Department of Financial Institutions**

8. **Elimination of the Credit Union Advisory Committee (May FL).** The Administration requests a \$1,000 budget reduction and approval of trailer bill language to reflect the elimination of the Credit Union Advisory Committee. The Committee is composed of seven members all appointed by the Secretary of Business, Transportation and Housing Agency. The purpose of the Committee is to advise the Commissioner of the Department of Financial Institutions, and statute requires quarterly meetings. The Administration indicates there is no longer a need to have a formalized advisory body.

**2180 Department of Corporations**

9. **Elimination of the Mortgage Bankers Advisory Committee (May FL).** The Administration requests a \$1,000 budget reduction (special fund) to reflect the elimination of the Mortgage Bankers Advisory Committee. The purpose of the Committee is to advise the Commissioner of the Department of Corporations. The Administration indicates there is no longer a need to have a formalized advisory body.

**2320 Department of Real Estate**

10. **Elimination of the Real Estate Advisory Commission (May FL).** The Administration requests a \$8,000 budget reduction (special fund) and approval of trailer bill language to reflect the elimination of the Real Estate Advisory Commission. The Commission is composed of ten members, all appointed by the Real Estate Commissioner. The purpose of the Commission is to advise the Real Estate Commissioner regarding changes to regulations and real estate market conditions. The Administration indicates there is no longer a need to have a formalized advisory body.

**2400 Department of Managed Health Care**

11. **Elimination of the Clinical Advisory Panel and the Managed Care Advisory Committee (May FL).** The Administration requests a \$37,000 budget reduction (special fund) and approval of trailer bill language to reflect the elimination of these two advisory bodies. The Clinical Advisory Panel consists of five members appointed by the Director of the Department and the purpose of the Panel is to advise the Director on clinical issues. The Managed Care Advisory Committee consists of 20 members (six appointed by the Legislature). Most of the statutorily-defined responsibilities of the Committee deal with the creation of the Department. Both bodies are statutorily required to meet quarterly. The Administration indicates there is no longer a need to have these formalized advisory bodies.

**2720 Department of California Highway Patrol**

12. **Lease Revenue Bond Debt Service Adjustments (May FL).** The Administration requests adjustments to budget bill appropriations to reflect minor changes in lease revenue bond debt service payments and related reimbursements. These changes are of a technical nature and total less than \$40,000 (special fund).

**9650 Health and Dental Benefits to Annuitants**

- 13. Adjustment Related to the Medicare Modernization Act (May FL).** A May Finance Letter requests to increase the budgeted Health and Dental Benefits to Annuitants by \$34.5 million because previously anticipated savings from the federal Medicare Modernization Act are now *not* expected to accrue in 2005-06. This issue was heard at the April 27, 2005, hearing, but held open for the May Revision adjustment. The Health and Dental Benefits for Annuitants budget item provides the State's contribution for the cost of a health benefits plan and dental care premiums, for annuitants and other employees, in accordance with requirements of Government Code. The cost of this benefit is estimated by the California Public Employees' Retirement System (CalPERS). The Governor's January Budget budgeted the amount of \$861 million (all General Fund) – an increase of \$65 million from the current year. According to CalPERS, this expenditure forecast is traditionally updated in June and both the Administration and Legislature are notified. The budget bill is updated to reflect the new estimates through a Department of Finance technical correction, upon approval by the Legislature.

**9800 Augmentation for Employee Compensation**

- 14. Adjustment to Reflect Updated Cost Estimates (May FL).** A May Finance Letter requests a \$36.2 million decrease in the General Fund appropriation (decreasing the item to \$161.7 million) and requests a \$55.1 million increase to the special fund appropriation (increasing the item to \$111.1 million) to reflect new estimates of 2005-06 augmentations to implement the provisions of existing bargaining-unit contracts. This issue was heard during the April 27, 2005, hearing, but held open for the May Revision adjustment.

**Control Section 4.01 Employee Compensation Savings**

- 15. Authority for Budget Adjustments for Employee Compensation Savings (Governor's Budget).** Control Section 4.01 provides authority for the Director of Finance to adjust Budget Act appropriations for any reductions in employee compensation costs (subject to memoranda of understanding negotiated with bargaining units) and for savings from the Alternative Retirement Program. The control section is written with general language and does not specify any particular level of savings. This issue was discussed at the April 27 hearing and held open. No such item was included in the 2004 Budget Act. The Administration indicates it is proposing this item to facilitate budget adjustments for any realized savings in the specified areas.

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**Staff Recommendation:** Approve the budgets of the entities listed above.

**Vote:**

## Departments with Issues for Discussion and Vote

### 0520 Secretary for Business, Transportation and Housing

#### **Vote-Only Issue (This issue was discussed at the May 11 hearing)**

1. **Manufacturing Technology Program (Staff Issue).** The Governor's Budget includes reimbursements of \$2.1 million to support the Manufacturing Technology Program (MTP). This program supports the efforts of the Corporation for Manufacturing Excellence (MANEX) in Northern California and the California Manufacturing Technology Center (CMTC) in Southern California. These entities provide consulting services to small manufacturers to improve their efficiency and to retain these firms in the state. Staff has learned that it is unlikely the Agency will receive the budgeted reimbursements in 2005-06 to support the program.

**Staff Comment:** The Subcommittee should be aware that the Manufacturing Technology Program will most likely *not* receive funding in 2005-06, contrary to what is indicated in the Governor's Budget. The only two budgetary avenues to restore funding that staff is aware of is to restore the provisional language requiring ETP funding in the EDD budget, or fund the MTP with General Fund. During last year's ETP discussion, the use of ETP funds for the MTP program was opposed by the California Manufacturers & Technology Association and the California Labor Federation.

**Staff Recommendation:** Since the budget reimbursements are unlikely to be realized to support the Manufacturing Technology Program, the Subcommittee may want to consider adding General Fund support for the program.

**Vote:**

**Vote-Only Issue (This issue was discussed at the May 11 hearing)**

2. **Film Commission Fee Report (Staff Issue).** The Film Commission has statutory authority to charge fees for film permits on State property, but has not exercised this authority to institute fees. The Film Commission is currently funded with a General Fund appropriation of \$886,000. Last year, the LAO recommended the General Fund support for the Commission be eliminated and that the Commission become fee supported. The BT&H Agency requested and received additional time to study fees, and provisional language was added to the 2004 Budget Act that required the Agency to report to the Legislature by April 1, 2005, with a cost-recovery fee plan. This report was provided to Committee staff on May 13, 2005.

**Staff Comment:** The Film Commission report recommends continued General Fund support for the Commission and recommends that the State continue the practice of issuing free film permits. The report indicates that no other states charge film permit fees, and that some other states and countries offer film production incentives that exceed those of California. The report indicates that the Los Angeles Film Office charges a permit processing fee of \$450. The report presents four fee options, including a flat fee, and various sliding scale fees based on perceived ability to pay or days of production.

**Staff Recommendation:** Maintain General Fund support for the Film Commission at the budgeted level. (no action is required)

**Vote:**



**Issues for discussion and vote**

- 3. CinemaScout Digital Library Technology Project (May FL).** The California Film Commission (within the Business, Transportation, and Housing Agency) requests a one-time augmentation of \$500,000 (General Fund), and \$50,000 ongoing, to upgrade the CinemaScout server and software. The Agency indicates that CinemaScout makes over 11,000 images of state property available online for film production companies to use in selecting potential film location sites. The requested funding would be used to improve and modify the existing web-based system, enhance and simplify its functions, and bring the digital data up-to-date. The Feasibility Study Report (FSR) for this project has not been approved and requested provisional language would make expenditure of fund contingent on Department of Finance approval of the FSR.

**Staff Comment:** This is the second consecutive year that the Film Commission has submitted a May Finance Letter requesting an augmentation for an information technology project that is lacking an approved FSR. Last year, the Commission requested and received approval for a \$600,000 (General Fund) augmentation to develop a new film-permitting information technology project. The nature of this project does not suggest a new or unanticipated need justifying a May Finance Letter submission instead of a Governor's January Budget request. Additionally, the urgency-level of the project does not suggest legislative approval cannot wait for an approved FSR.

**Staff Recommendation:** Reject this request.

**Vote:**

- 4. Tourism Funding (April FL).** The Administration requests \$7.3 million in new General Fund support for the California Travel and Tourism Commission. Currently, the Commission does not receive General Fund support, although statute cites the intent of the Legislature to appropriation at least \$7.3 million annually. The Commission is otherwise supported by fees from the tourism industry. The BT&H Agency estimate these fees will produce revenue of \$7.3 million in 2004-05 and \$10.9 million in 2005-06. The Commission approves a market plan for expenditure of the funds to promote California tourism.

**Staff Comment:** This issue was *not* heard at the May 11, 2005, hearing with the intent that this issue would be further discussed by the Conference Committee. The Assembly approved the Administration's funding request.

**Staff Recommendation:** The Subcommittee may want to consider some level of State funding for the Tourism Commission. Note, if no action is taking this issue goes to Conference (because of the Assembly Action).

**Vote:**

- 5. Small Business Advocate Position. (Member Issue).** The Subcommittee may want to consider an augmentation of \$150,000 and 1.0 position and the adoption of trailer bill language to move the Small Business Advocate Position from the Office of Policy and Research (OPR) to the Business, Transportation, and Housing Agency. Conforming action would also be required in the OPR budget.

**Background / Detail:** AB 505 (Statutes of 2000, Wright) established the Small Business Advocate Position within OPR to act as a conduit between the Administration and California's small business community. Since its establishment in statute, the Small Business Advocate Position, except for a brief period in 2002, has remained vacant within OPR. Though the position was established in statute, no additional funding was ever provided to OPR. Instead, it was expected that the position would be filled from OPR's existing resources.

Since the dismantling of the Technology Trade and Commerce Agency, the Business Transportation and Housing Agency has taken the lead role in the running of our state's economic development programs. The Small Business Advocate position was intended to coordinate with the state's diverse network of economic development programs and serve as a conduit between those programs, their recipients and the Administration. However, because this position has not been filled consistently, the state has been unable to take advantage of these opportunities.

**Staff Recommendation:** The Subcommittee may wish to consider relocating this position to the Office of the Secretary of BTH to better take advantage of the Agency's cumulative experience with economic development programs and appropriate funding to support the position.

**Vote:**

- 6. Chrome Plating Pollution Prevention Account (Member Issue).** The Subcommittee may want to consider approval of a new appropriation item to provide expenditure authority of \$2 million (special fund revenue) for a chrome plating pollution prevention program that would be implemented by future legislation. Assembly Bill 721 (Nunez), currently contains provisions for such a program. Under this proposal, remaining funds from the Hazardous Waste Reduction Loan Account would be transferred to the newly-created Chrome Plating Pollution Prevention Account. Funding would be used to fund the activities outlined in AB 721: loan and loan guarantee programs and associated activities. Currently, there is \$2.2 million in the Hazardous Waste Reduction Loan Account.

Add new item 0520-001-XXX.

*For support of the Business Transportation and Housing Agency, for payment to Item 0520-001-0044, payable from the Chrome Plating Pollution Prevention Account.....\$2,000,000*

*Provisions:*

- 1. Funds appropriated from this item shall be expended to address the various environmental issues posed by the metal plating industry while preserving its economic vitality.*
- 2. Funds shall not be available until January 1, 2006.*

Amend item 0520-001-0044 to conform to the above item.

Add trailer bill language that creates the Chrome Plating Pollution Prevention Account and authorizes the transfer of remaining funds from the Hazardous Waste Reduction Loan Account (see attached).

**Staff Recommendation:** The Subcommittee may wish to consider adopting the new Budget Act appropriation and language.

**Vote:**

## 1111 Bureau of Security and Investigative Services

### **Issue for Discussion / Vote:**

1. **Efficiency gains, Bureau activity, and fee levels (Staff Issue):** The Bureau reports that increased electronic processing, including both license applications and finger printing, have reduced workload hours for these activities. At the same time, program revenues are outpacing expenditures by approximately \$800,000 annually. The Bureau indicates it is considering moving some positions freed-up from processing efficiencies to enforcement activity. Additionally, a fee reduction is being considered. Private security officers currently pay an initial registration fee of \$50.

**Staff Comment:** The Service Employees International Union, which represents private security officers, has suggested that the public would be better served by increased Bureau activity instead of a fee reduction. The following areas have been suggested for increased activity:

- Enforcement and Auditing – including monitoring of training requirements.
- Outreach – including the orientation of new security firms to the laws of the State, more coordination with local law enforcement entities, and consumer education concerning the State's oversight role for private security firms.

The California Associate of Licensed Security Officers, Guard, and Associates, which is the major employer organization for security firms in the state, also sent a letter requesting an augmentation in the Bureau's budget to add positions to speed license processing and improve enforcement.

The Bureau indicates that it currently visits about 45 security firms per month for audit and investigative work (including compliance visits related to training requirements). With approximately 2,800 firms in the State, the Bureau would visit about 540 (or 19 percent) in a year. Each new Associate Governmental Program Analyst would allow another 180 field visits and cost approximately \$94,000.

**Staff Recommendation:** Augment the Bureau's budget by 3 positions and \$283,000 (\$42,000 one-time). The Bureau is supported by fees paid by employees and employers and both groups, through their representative organizations, support an augmentation.

**Vote:**

**1880 State Personnel Board****Issue for Discussion:**

- 1. Peace Officer Procedural Bill of Rights Mandate (May FL).** The Administration requests funding of \$18.2 million to cover reimbursements to locals for their costs of administering the Peace Officer Procedural Bill of Rights (POBOR). This mandate has been deferred in every budget since 2002-03. The \$18.2 million figure represents the cost of the mandate claims in 2002-03; however, the LAO indicates the estimated annual cost has increased to \$31 million. The Governor's January Budget has proposed to defer the mandate, which continues the legal requirements, but delays, into future years, the State's reimbursement to locals.

**Staff Comment:** Proposition 1A, which was approved by voters in 2004, exempts mandates pertaining to labor relations (including POBOR) from its annual funding requirement. The LAO indicates that the State faces the constitutional responsibility to pay approximately \$69 million in 2005-06 mandate claims that are currently unfunded in the budget. The LAO recommends that the unfunded mandates that cannot be deferred, be funded prior to those mandates that can be deferred under Proposition 1A.

**Staff Recommendation:** Reject the May Finance Letter.

**Vote:**

## 1955 Department of Technology Services

The Department of Technology Services (DTS) represents the Governor's reorganization proposal to consolidate the Stephen P. Teale Data Center (Teale), the Health and Human Services Data Center (HHSDC), and certain telecommunications functions of the Department of General Services (DGS).

**Proposed Budget:** The Governor's January Budget proposed total expenditures for DTS of \$235.4 million (funded by reimbursements from State departments, including General Fund departments, that use the services). The table below shows the base 2004-05 funding for the existing three entities and the 2005-06 funding proposed for DTS. Note, the Systems Integration Division (SID) of the Health and Human Services Data Center is excluded from the DTS consolidation and is proposed to be transferred to the Health and Human Services Agency. No position savings is proposed in the short-term from the consolidation.

<b>Proposed Budget: The Department of Technology Services (in 1,000)</b>				
	<b>Teale Data Center</b>	<b>Health &amp; Human Services Data Center (less SID)</b>	<b>DGS - Office of Network Services</b>	<b>Totals</b>
2004-05 Budget	\$101,063	\$120,874	\$10,408	\$232,345
Compensation Adjustments	2,055	1,453	203	3,711
Negative Baseline Adjustments	-11,640	-3,449	0	-15,089
Miscellaneous Baseline Adjustments	45	2,776	62	2,883
Provision 5	na	1,966	na	1,966
Capacity BCPs	8,077	1,553	0	9,630
<b>Total 2005-06 (DTS Budget)</b>	<b>\$99,600</b>	<b>\$125,173</b>	<b>\$10,673</b>	<b>\$235,446</b>

**Status of the Reorganization Plan.** The official reorganization plan has been received by the Legislature, but it is also still under review by the Little Hoover Commission. The issue before the Subcommittee is whether to approve the "contingent" budget for DTS, that includes provisions for the contingency that the Legislature rejects the Reorganization Plan. A Legislative hearing to review the Reorganization Plan itself will likely occur in June.

**Issues for Discussion and Vote:**

1. **Addition of Budget Act Appropriations (May FL):** The Administration requests to add a budget bill appropriation for DTS, and “contingency” appropriations for Teale, HHSDC, and DGS, to become effective if the Reorganization Plan is rejected, or if the plan is approved after July 1, 2005. In the Governor’s January Budget, the Administration proposes a continuous appropriation for the DTS, in contrast to the current practice of Budget Act appropriations for the existing data centers. The Administration is now supportive of a Budget Act appropriation for DTS. A Budget Act appropriation is responsive to concerns raised by the LAO in the *Analysis of the 2005-06 Budget Bill* and discussed at the March 2, 2005, hearing.

**Staff Recommendation:** Approve the addition of the budget bill appropriations for DTS and related contingency appropriations/language for Teale, HHSDC, and DGS. Add trailer bill language to delete the continuous appropriation authority in the statutory language proposed for DTS – as it is the intent of the Legislature and Administration to appropriate DTS funding through annual budget bills, the continuous appropriation authority is unnecessary.

**Vote:**

2. **Settle-up Expenditure Authority (May FL).** The Administration proposes a technical adjustment of -\$9.9 million to settle excess expenditure authority that has accumulated since 2001-02 in the Health and Human Services Agency Data Center’s Cannery (Program 25) operations. Savings occurred primarily due to equipment purchases made at a lower than budgeted cost. The \$9.9 million is a reduction relative to the figures in the Governor’s January Budget and the adjustment is incorporated into the budget bill appropriation discussed in Issue #1 above.

**Staff Recommendation:** Approve the Finance Letter “Settle-up” adjustment to the budget bill appropriation.

**Vote:**

**3. CWS/CMS Application Re-Hosting Project Budget Bill Language. (May FL).**

The Administration requests that provisional language be added to Item 1955-001-9730 to allow the Department of Finance to make positive or negative expenditure authority adjustments to the Child Welfare Services/Case Management System (CWS/CMS) Application Re-Hosting project costs. The CWS/CMS application is an automated case management system used by counties to administer Child Welfare Service programs. As part of the CWS/CMS Go-Forward Plan (GFP), application hosting activities will be transferred from an IBM facility to a state-run data center. This will increase competition for future bids to maintain or reprocur the system. The requested provision would allow the Department of Finance to adjust DTS expenditure authority to support application re-hosting activities. This would be done with a 30-day notice to the Legislature, following Finance review and approval, in accordance with the current approved project or any subsequent project document. The DTS would recover costs according to its billing rate structure after the CWS/CMS application is hosted at the DTS and fully operational.

**Staff Recommendation:** Approve the Finance Letter request.

**Vote:**



## 2100 Department of Alcoholic Beverage Control

### Department of Alcoholic Beverage Control (ABC) Issue for Discussion

1. **Office Renovations (Budget Change Proposal (BCP) #1).** The Department requests a total of \$246,000 (special fund) in one-time funding - \$100,000 for renovations in the Van Nuys State Building and \$220,000 for renovations in the Santa Ana State Building. The request also includes headquarters office renovations and savings from new leases such that the request totals \$246,000. Improvements include new modular workstations as well as changes to doors and walls.

**Staff Comment:** This issue was previously heard at the March 2 Subcommittee hearing. At the hearing, ABC indicated that it would be their preference to move to other facilities, however, the Department of General Services (DGS) requires the identification a replacement tenant as a condition of the move and no replacement tenant has been identified. This issue was held open and placed in this hearing with the DGS budget so DGS would be available to testify on this issue.

**DGS Response:** In response to questions from staff, DGS indicates these state-owned facilities are in "good operating condition." DGS states it is acting in compliance with the State Administrative Manual Section 1310.3, which says "Existing state-owned or state-controlled space will be utilized before the leasing of additional space is considered." DGS has been working with ABC for five years to find a replacement for the Santa Ana facility.

**Discussion Questions:** The Subcommittee may wish to ask DGS and ABC the following questions:

DGS – What further efforts can DGS make to find a backfill tenant for ABC and then find more suitable office space for ABC? What is the prospect for success?

ABC – If the BCP for Office Renovations is approved, will ABC continue to request to move into new office facilities?

**Staff Recommendation:** Approve the BCP request.

**Vote:**

**2240 Department of Housing and Community Development****Budget Changes proposed for Vote Only**

- 1. Community Development Block Grants – Disaster Recovery (May FL).** The Administration requests a budget augmentation of \$10.5 million (\$211,000 for state operations and \$10.3 million for local assistance) to reflect federal grants that have become available through the federal Department of Housing and Urban Development to address recovery efforts related to the Southern California wildfires, San Simeon earthquake, and the San Joaquin levee break.
- 2. Transfer to General Fund (May FL).** The Administration requests that \$1.7 million in California Homebuyer Downpayment Assistance Program (CHDAP) funds from California Housing Finance Agency (CalHFA) be transferred to the General Fund. Program funding was provided by a 2000 Budget Act General Fund appropriation. CalHFA originated over \$25.0 million in loans under this provision before balances for the program were reverted to the General Fund. An amount was retained in the program to complete contractual obligations and commitments to fund Self-Help Housing. Those obligations have been completed and the program can now be funded from Proposition 46 down payment assistance funds.

**Staff Recommendation:** Approve these two May Finance Letters.

**Vote:**

**Housing and Community Development Issues for Discussion / Vote**

- 3. Governor's Chronic Homeless Initiative (May FL).** The Administration requests a one-time General Fund augmentation of \$1 million and trailer bill language, which would be combined with up to \$40 million in existing Proposition 46 housing bonds and \$10 million from the California Housing Finance Agency, to create 400-500 units of permanent housing with services for chronic mentally ill populations. The proposal would also include the use of \$2.4 million in Proposition 63 (the Mental Health Services Act) bond funds. The General Fund portion of this proposal would be expended as follows:

- \$250,000 to create an interagency council on homelessness to improve coordination among state departments.
- \$750,000 for predevelopment loans to fund upfront housing project costs.

**LAO Recommendations:** The Legislative Analyst's Office (LAO) makes the following recommendations regarding this proposal:

- **Reject Council Funding.** The LAO recommends rejecting the \$250,000 requested for the Governor's Interagency Council on Homelessness, indicating the Administration should be able to do this within existing resources.
- **Other Funding Sources for Predevelopment Loans.** The LAO recommends replacing General Fund support of \$750,000 with Proposition 63 mental health funds set aside for administration. Funding from this source could be made available through Budget Bill Language in the Department of Mental Health item.
- **Prop. 46 Housing Bond Funds Already Available.** The Administration is proposing to redirect Proposition 46 housing bond funds designated for housing preservation. The LAO indicates this change is not necessary to implement this proposal, because there are sufficient funds designated for supportive housing already. Consequently, LAO recommends not adopting the proposed TBL because HCD can proceed using existing authority.

**Staff Recommendation:** Consistent with the Assembly action: **(1)** Reduce the General Fund augmentation for Council funding from \$250,000 to \$125,000; **(2)** Reject the \$750,000 General Fund augmentation for Predevelopment Loans and use Proposition 63 funds (A conforming action would be needed in Budget Subcommittee #3 to achieve this); **(3)** Adopt placeholder trailer bill language and direct staff to draft new language that would allow a portion of the housing preservation money to be redirected to this purpose; and **(4)** Use the General Fund savings from this recommendation to restore Emergency Housing Assistance Program Funding (see next issue).

**Vote:**

- 4. Emergency Housing Assistance Program (EHAP) - Funding.** The Administration proposes an EHAP funding reduction of \$864,000 – to \$3.1 million (General Fund). The Emergency Housing Assistance Program (EHAP) provides funds for homeless shelter programs through minimum county allocations of \$30,000. The Program funds basic homeless shelter operating costs such as rent, utilities, and salaries of core administrative staff. A history of program funding is outlined in the following table.

Funding for Emergency Housing Assistance (in millions)								
	1998-99*	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05**	2005-06***
Funding	\$2.0	\$2.0	\$39.0	\$13.3	\$5.3	\$5.3	\$4.0	\$3.1
* Supported with special funds in 1998-99, General Fund thereafter.								
** Funding was augmented by the Legislature to \$5.3 million, but vetoed by the Governor								
*** Proposed by the Governor								

**Staff Comment:** The Administration indicates the funding reduction for the budget year is a policy, not a caseload, decision. Homeless programs are primarily funded at the local level. HCD estimates that \$3.1 million would serve 4,700 persons per day, while \$4.0 million would serve 6,100 persons per day. The Department indicates federal homeless funding is expected to increase from \$6.7 million in 2004-05 to \$7.3 million in 2005-06; however, the 2005-06 figure is an estimate.

**Staff Recommendation:** If the Subcommittee adopts the Staff Recommendation for issue #4 on the prior page, a General Fund saving of \$875,000 will result (relative to the Governor's proposal). Staff recommends using this savings to restore EHAP funding to the 2004-05 level of \$4 million. The staff-recommended action on these two issues, would not increase General Fund costs relative to the Governor's homeless proposals, but should result in an allocation of funds that would increase the benefit to the homeless population.

**Vote:**

- 5. New Grant for the Regional Housing Needs Assessment (Staff Issue).** The Chair of the Transportation and Housing Committee, Senator Tom Torlakson, has requested that the Budget Committee consider adding a General Fund item to appropriate \$1 million for a grant program to offset the cost to Councils of Governments (COGs) for assessing localities their share of the regional housing need.

**Background:** Statute requires COGs to assess a locality its share of the regional housing need. As part of its general plan, every city and county is required to prepare a “housing element” which assesses the conditions of its housing stock and outlines a five-year plan for housing development. In 1981, the Board of Control determined that the housing-element requirement imposes a reimbursable mandate. Last year, the LAO estimated the annual cost to the State at approximately \$4 million (General Fund). Last year, the Legislature approved a budget trailer bill (SB 1102), which asked the Commission on State Mandates to reconsider the 1981 finding based on federal and state statutes enacted and federal and state court decisions rendered since the 1981 finding. On March 30, 2005, the Commission on State Mandates adopted a Statement of Decision that the housing element mandate does not require state reimbursement under the provisions of Article XIII B, section 6, of the California Constitution.

**Staff Comment:** While the decision by the State Mandates Commission means the state has no obligation to reimburse COGs for their “housing element” cost, the Subcommittee may still want to consider funding a portion of the cost of these activities which support a statewide need to increase the housing supply.

**Staff Recommendation:** The Subcommittee may want to consider a General Fund augmentation of \$1 million to fund grants to locals for the preparation of the Regional Housing Needs Assessment.

**Vote:**

**2660 Department of Transportation****Caltrans Budget Changes proposed for Consent / Vote Only**

1. **Lease Revenue Bond Debt Service Adjustments (May FL).** The Administration requests a net increase of \$357,000 (State Highway Account) to the budget bill appropriation that authorizes lease revenue bond debt service payments. These changes are of a technical nature and relate to revised estimates for base rental payments, fees, and insurance costs.
2. **Reappropriation of Federal Safety Grants (May FL #15).** The Administration requests a reappropriation to extend the period of availability for federal "Corridor Improvement and Formula Section 163 grants." The 2004 Budget Act appropriated \$31.0 million for this purpose under an unclassified appropriation, which is available for state operations, local assistance, or capital outlay. Historically, funding in this appropriation is transferred to other budget items through a budget revision, once the expenditure classification is determined. This year, the Department of Finance determined that there was insufficient authority in existing provisional language to continue making these transfers. The Department indicates the funds would revert back to the federal government if the period of availability were not extended beyond the end of this fiscal year.
3. **Storm-water Workload (May FL #14).** The Administration requests a permanent increase of 82 positions and \$25.9 million (of this, \$14.8 million is limited-term) for the maintenance of storm-water structural treatment best management practices. Caltrans' storm-water activities are driven by requirements of the federal Clean Water Act, requirements of the State Water Resources Control Board and various regional boards, and legal settlements. This specific request relates to requirements of a recent legal settlement with the Natural Resources Defense Council. At the March 16, 2005 hearing, the Subcommittee discussed this issue and rejected a related BCP, because Caltrans indicated that they were preparing updated workload figures that would be provided in a Finance Letter.
4. **Proposed Trailer Bill Language to Eliminate the Transportation Development Advisory Committee (May FL).** The Administration proposes trailer bill language to eliminate the Transportation Development Advisory Committee and requests a related budget reduction of \$1,000. Existing law prescribes two responsibilities to the Committee: advise Caltrans in the preparation of legislatively-required reports, and to advise Caltrans on planning and design standards for development and designation of official scenic highways. Because the primary function of this committee was to provide advice to the Director, the Administration indicates this function can more efficiently be provided on an ad hoc basis, rather than on a statutory basis.

- 5. Transportation Permits Management System (April FL #3 & #8).** The Administration requests a permanent augmentation of \$551,000 (special fund, with out-year escalations as noted below) for maintenance and operation of the Transportation Permits Management System (TPMS) as it begins production use (FL #3), and a reappropriation to extend the liquidation period of funds approved to implement the system (FL #8). Caltrans is requesting escalating funding for TPMS maintenance and operations as follows (dollars are in thousands):

Fiscal Year	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Funding	\$551	\$735	\$779	\$790	\$816	\$825

The Subcommittee held this issue open at the May 11 hearing at the request of the LAO, because the Feasibility Study Report (FSR) for this project had not been approved by the Department of Finance. The Department of Finance approved the project FSR on May 12.

- 6. Operational Savings (May FL)** The Administration requests to revert \$51.6 million in operational savings in 2004-05 and reflect an unallocated state operations savings of \$50.0 million during 2005-06. Caltrans indicates that the current year savings were generated by a combination of salary savings (\$38.0 million), delaying contract awards (\$9.0 million), Teale Data Center cost savings (\$9.0 million), and elimination of leased space (\$600,000). The Administration proposes to use this savings to augment the capital outlay appropriation item and increase 2005-06 expenditures for the State Highway Operations and Protection Program.

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**Staff Recommendation:** Approve vote-only issues 1-6 listed above.

**Vote:**

**Caltrans issues for Discussion / Vote**

7. **Proposition 42.** With the May Revision, the Governor withdrew his January proposal to suspend Proposition 42. Proposition 42 revenue is estimated by the Department of Finance at \$1.3 billion. This May Revision proposal would increase 2005-06 General Fund expenditures by \$1.3 million and the funding would be allocated, pursuant to statute, as follows:

- \$678 million for Traffic Congestion Relief Program (TCRP) projects.
- \$254 million for cities and counties for local streets and roads.
- \$254 million for the State Transportation Improvement Program.
- \$63 million for State Transit Assistance.
- \$63 million for other mass transit programs.

No action is needed to restore Proposition 42 funding, because that transfer is required by the California Constitution unless the transfer is suspended by a proclamation of the Governor and a two-thirds vote of the Legislature. All Proposition 42 expenditures out of the Transportation Investment Fund (TIF) are continuously appropriated in statute, upon appropriation by the Legislature, except the portion that is transferred to the Public Transportation Account (PTA). Therefore, a budget action is required to appropriate the TIF expenditures and transfers, and expend the PTA funds (including expenditure of \$63 million for State Transit Assistance and \$63 million for other mass transit programs). The Department of Finance also requests to make other related technical budget adjustments

The Administration requests that three existing Administration-sponsored policy bills (AB 850, AB 1266, and SB 705) be considered budget trailer bills and link their passage to the availability of the Proposition 42 funds. These bills expand toll roads, design-sequencing, and design-build, respectively. These bills do not directly affect the 2005-06 budget, and their subject matter makes them better-suited for the policy bill process.

**Staff Recommendation:** Appropriate the Proposition 42 funds in the Transportation Investment Account for expenditure or transfer in accordance with the allocations specified by Proposition 42. Approve the augmentations in the Public Transportation Account appropriation items related to the Proposition 42 transfer. Approve any additional technical corrections necessary to correctly budget the Proposition 42 transfer, upon concurrence by Committee Staff and Republic Fiscal Staff. Reject the conversion of AB 850, AB 1266, and SB 705 into a budget trailer bill.

**Vote:**



- 8. Tribal Securitization Revenue (May Finance Letter).** The Administration requests budget adjustments to reflect a \$222.0 million reduction in bond revenue from tribal gaming revenue securitization. This reduces budgeted revenue from \$1.2 billion to \$1.0 billion in 2005-06. This revenue would repay outstanding Traffic Congestion Relief Fund (TCRF) loans made to the General Fund. Due to the statutory distribution of this TCRF revenue, the Administration also requests to reduce the 2005-06 Public Transportation Account capital outlay appropriation by \$152.5 million, and reduce the 2005-06 distribution to cities and counties by \$69.5 million.

The Administration requests related trailer bill amendments to do the following:

- Specify the outstanding TCRF loans to the General Fund, which are not repaid by the tribal gaming bonds (\$222 million), shall be repaid by “future gaming revenues, additional securitizations against those revenues, or pursuant to any future constitutional or statutory provision related to special fund loans to the General Fund.”
- Adjust statute to reflect an additional interest obligation of \$8 million due to the delayed issuance of the bonds.

**Staff Recommendation:** Approve the trailer bill language but amend the language to clarify that any outstanding TCRF loans to the General Fund that are not repaid with tribal gaming revenue, remain a debt of the General Fund.

**Vote:**

- 9. Public Transportation Account Spillover (Governor’s Budget Proposal).** The Administration requests approval of trailer bill language that would suspend the 2005-06 transfer of “spillover” gasoline sales tax revenue to the Public Transportation Account, and instead retain approximately \$380 million in the General Fund. Under current statute, all spillover revenue would be transferred to the Public Transportation Account, with half of that then transferred to the State Transit Assistance budget item. The “spillover” only occurs in years when gasoline prices are high relative to the prices of other goods. No spillover occurred during the period of 1994-95 through 2000-01; however, a spillover of \$11.3 million occurred in 2001-02. The past two budgets have included trailer bill language to use spillover revenue for General Fund relief. The Public Transportation Account and the State Transportation Account also receive a portion of Proposition 42 revenues.

**Staff Recommendation:** Approve the trailer bill language.

**Vote:**

- 10. Highway Maintenance Funding (BCP #6).** The Administration requests a permanent increase of 38.0 positions and \$45.8 million for highway infrastructure preservation (\$42.3 million) and to implement the statewide culvert inspection and repair program (\$3.5 million).

**Background:** The 2004 Budget Act included a one-time augmentation of the same amount (\$45.8 million) and associated budget trailer legislation (SB 1098) required Caltrans to provide the Legislature with a five-year maintenance plan by January 31, 2005. The Maintenance Report was delivered to staff on May 5, 2005. The report recommends approval of maintenance funds at the level requested in the Governor's Budget. The report presents three options for funding and indicates the future State Highway Operations and Protection Program (SHOPP) cost avoidance associated with each option. The table below summarizes these options (dollars in millions).

Option	Description	Cost	SHOPP Cost Avoidance	Net Benefit
1	Status Quo (growing backlog)	Governor's Budget (\$147M)	\$1,113M	\$966M
2	No Backlog Growth	Gov Budget + \$105M	\$2,020M	\$1,768M
3	Liquidate Backlog over 5 years	Gov Budget + \$250M	\$3,247M	\$2,850M

The Department indicates it will reevaluate the SHOPP project strategies to emphasize preservation and consider diverting about \$105 million to this effort in 2006-07. The report also indicates that the Administration would consider expanding the Maintenance Program in 2007-08 when the governor is proposing ongoing Proposition 42 funding.

**Staff Comment:** The figures in the report suggest that a \$1 increase in preventative maintenance today would reduce future road rehabilitation costs by \$6 to \$12 dollars. Thus, it would seem prudent to increase maintenance expenditures, even at the cost of delay to some capacity-enhancement projects.

**Culvert Inspections and Fish Passage Assessments:** Senate Budget Subcommittee #2 has discussed Caltrans' Culvert Inspection Program in the context of the State Coastal Conservancy and fish passage assessments. Caltrans previously performed fish passage assessments in part of the North Coast region with federal grant funds. This BCP request to implement the Culvert Inspection Program does not include funding for additional fish passage assessments. However, Caltrans' Director Kempton has indicated he will use new grant funds or redirected funds to continue the fish passage work. Caltrans estimates completing the highest-priority fish passage work would cost in the range of \$6 million to \$9 million. Senate Bill 857 (Kuehl) would specify additional requirements for fish passage assessments. The following budget bill provisional language is supported by Subcommittee #2 for inclusion in the Caltrans' budget.

*Provision X:*

*Of the funds appropriated in this item, \$3,450,000 shall be used to implement the statewide culvert inspection and repair program. Using redirected or grant funds, the Department of Transportation shall assess coastal streams outside of Mendocino, Humboldt, and Del Norte counties, for barriers to migratory fish passage. The Department shall coordinate its culvert inspection program activities to facilitate these fish passage assessments. Priority shall be given to coastal watersheds for culvert inspections and passage assessments.*

**Staff Recommendation:** Approve the request and augment the budget by an additional \$20 million to fund more major maintenance contracts. (The Maintenance Report suggests expenditure of this \$20 million will save \$120 million to \$240 million in future highway rehabilitation costs.) Approve the provisional language related to fish passage assessments.

**Vote:**

- 11. Performance Measurement System (FL # 7):** The Administration requests a two-year limited-term increase of \$557,000 and 4.0 positions to deploy and maintain the production version of the Performance Measurement System (PeMS). PeMS will assist Caltrans with the monitoring and evaluation of real-time traffic data and allow Caltrans to more effectively report comprehensive highway system performance measures.

**Background / Detail:** PeMS was initially developed as a research project, to develop standard reports for volume, speeds, travel time, delay and developing a fluent user group. The Performance Measurement System is currently operational in six urban districts: District 3 (Sacramento); District 4 (San Francisco Bay Area); District 7 (Los Angeles); District 8 (Inland Empire); District 11 (San Diego); and District 12 (Orange County). Plans are underway to connect District 6 (Fresno) soon and District 10 (Stockton) eventually. The Finance Letter would not be instrumental in adding these two districts, but would rather improve the existing base system.

**Staff Comment:** This issue was heard at the May 11 hearing and held open, because the Department of Finance has not approved the project Feasibility Study Report (FSR). The standard practice is for Finance to approve a FSR prior to submission of a budget change proposal to the Legislature. If the Legislature approves a project prior to Finance approval of the FSR, some aspects of the projects may still change – as Finance may require changes to the FSR plan.

**LAO Language:** The LAO has developed budget Control Section language that places new requirements for projects that receive budget approval prior to approval of a FSR.

**Staff Recommendation:** Approve the Finance Letter, but also approve the LAO's Budget Control Section language and conforming changes to Caltrans' provisional language. The language is Attachment II to this agenda.

**Vote:**

- 12. Equipment Program (BCP #16).** The Administration requests one-time funding of \$75,000 (Equipment Service Fund) to reimburse the Department of Finance, Office of State Audits and Evaluation, to serve in an advisory function as the Department develops record keeping systems for the Equipment Program to meet federal and state reporting requirements.

**Background.** A number of changes to the Equipment Program were instituted in 2000-01 with BCP 16. Most significantly, the Equipment Service Center Internal Service Fund was established and Caltrans was provided the authority to rent idle equipment to local agencies to recover costs. Staff understands that no Caltrans vehicles are currently being leased to other public agencies, and that few vehicles are shared among programs and districts. If vehicles are not being shared across agencies and Caltrans's programs, it may be possible to simplify the Department's equipment accounting system and reduce costs.

**March 16, 2005 Hearing:** The Subcommittee approved this request on a 2-1 vote with Senator McClintock voting no.

**New Information:** In April, Committee staff and Assembly staff met with the Caltrans Equipment Program and the Department of Finance to discuss in more detail the advising services that would be provided by the Office of State Audits and Evaluation (OSAE). Prior to the March 16 hearing, staff had understood that the scope of the consulting services would also include advice on the appropriateness of the accounting system relative to the way the Equipment Program actually operates. At the April meeting, OSAE indicated the review would be more narrow and only include advice on complying with the existing accounting model. OSAE indicates the broader look at the accounting model would cost an additional \$22,000. The Assembly amended provisional language to clarify the product of the OSAE audit and require Caltrans to absorb the additional cost.

**Staff Recommendation:** Conform to the Assembly action, which approves the \$75,000 augmentation requested by the Administration, but amends the provisional language to specify the scope of the consulting; requires Caltrans to absorb the additional \$22,000 cost of the expanded OSAE study; and adds a legislative reporting requirement. The amendments to the provision are Attachment III to this agenda.

**Vote:**

- 13. Environmental Enhancement and Mitigation (EEM) Program (Committee-staff issue).** The Administration is proposing no funding for the EEM program in 2005-06. The EEM Program funds grants for projects such as hiking and biking trails, landscaping, and the acquisition of park and wildlife areas.

**Background:** The EEM Program was initiated by Chapter 106, Statutes of 1989, which provided for annual transfers of \$10 million from the State Highway Account (SHA) to the EEM Fund for a ten-year period. At the expiration of the ten-year period, the Legislature decided to continue funding at the \$10 million level and current statute cites the intent of the Legislature to allocate \$10 million annually to the EEM Program. Due to declining SHA balances, no transfers were made from the SHA to the EEM Fund in 2003-04 and 2004-05. However, there was an existing balance in the EEM Fund of about \$10 million, and appropriations were included in the 2003-04 and 2004-05 Budget Acts to allow for EEM Program grants of \$5 million in each year.

**Staff Comment:** The EEM Fund balance is expected to fall to under \$1 million at the end of 2004-05. Therefore, the program cannot continue at the 2004-05 level without a transfer of about \$4.2 million from the SHA.

**Staff Recommendation:** Restore program funding to its historic base level of \$10 million. This action would require two additional budget bill items: (1) a \$10 million transfer from the State Highway Account to the EEM Fund; and (2) a \$10 million EEM appropriation.

**Vote:**

- 14. Regional Blueprint Planning (May FL).** The Administration requests a \$5 million augmentation in federal expenditure authority to institute a new local grant program to encourage metropolitan planning organizations to produce regional "blueprint" planning documents. The Administration indicates these plans will guide future development and land use decisions to promote economic development, while protecting the environment, promoting healthy cities, and reducing unnecessary travel demand.

**LAO Concerns:** The LAO recommends this request be denied because the current plan lacks detail on eligibility criteria and performance measures. Additionally, this proposal would create a new program, and as such, it may be more appropriate first create the program through a policy bill.

**Staff Recommendation:** Reject the request.

**Vote:**

- 15. Capital Outlay Support: Non-Project Specific Contracts (BCP #14).** The Administration requests a permanent increase of \$11.7 million (to \$23.6 million – a 98 percent increase) for non-project-specific contracts. Services include document reproduction, photography and satellite imagery, environmental studies, and training.

<b>Capital Outlay Support Service Contract Budgets (\$ in millions)</b>			
	2003-04	2004-05	2005-06*
Non-Project-Specific Contracts	\$18.0	\$11.9	\$23.6
Project-Specific Contracts	\$4.1	\$7.6	\$7.6
Total	\$22.1	\$19.5	\$31.2
* Proposed. The Administration may request an adjustment to the Project-Specific-Contract budget in a May Finance Letter.			

**Staff Comment:** This issue was held open at the March 16 hearing, and Caltrans offered to provide additional detail on these projects. A detailed project list was provided to staff on May 16 that includes a revised need of \$6.9 million. Staff understands the Administration does not object to the Subcommittee reducing the funding request to meet the revised need assessment.

**Staff Recommendation:** Approve the BCP request minus \$4.8 million (to tie to the Departments revised need estimates).

**Vote:**

- 16. Capital Outlay Support: Project Workload (May Finance Letter).** The Administration requests staffing, contract and operations adjustments related to the current estimate of project workload. The Administration has submitted the following three separate Finance Letter requests:

<b>Workload Description</b>	<b>Change to State Staff</b>	<b>Change to full-time equivalent: contract-work and overtime</b>	<b>Dollar Budget Change (in millions)</b>
Base	0	-237	-\$2.4
Tribal Bond Revenue	141	542	\$96.7
Proposition 42	175	453	\$79.9
<b>Total</b>	<b>316</b>	<b>758</b>	<b>\$174.2</b>

At the time this agenda was written, the Administration had only submitted detail on the “Base” request. Therefore, detail does not exist for staff to determine the split between contract-out work and overtime and compare those figures with state staff and historic workload distribution among these groups.

**Staff Recommendation:** Since the detail has not been provided on the “Tribal Bond Revenue” and “Proposition 42” workloads , Staff recommends the Subcommittee approve a motion of Finance Letter minus \$1,000 for each of these three Finance Letter requests to put the issue in Conference. The Administration should provide the detail as soon as possible.

**Vote:**



## 2640 Special Transportation Programs

### **Issue for Discussion and Vote:**

1. **Proposition 42 Funding for Special Transportation Programs (May FL).** The Special Transportation Program provides funding to the State Controller for allocation to regional transportation planning agencies for mass transportation operations and projects. Funding comes from the Public Transport Account, which obtains its revenue from a portion of the sales tax on fuel, including some Proposition 42 funds. The Governor's January Budget proposed funding of \$137.3 million for Special Transportation Programs – an increase of \$19.9 million (17 percent) over current-year funding. The May Revision proposes to restore Proposition 42 funding, which would increase Special Transportation Program revenues by an additional \$65 million. The Administration continues to propose that Public Transportation Account “spillover” revenue be retained in the General Fund. See additional information on the “spillover” revenue in the Department of Transportation section of this agenda.

**Staff Recommendation:** Approve the \$65 million augmentation to this item related to Proposition 42. Approve any additional technical corrections necessary to correctly budget the Proposition 42 transfer, upon concurrence by Committee Staff and Republican Fiscal Staff.

**Vote:**

## 2665 High-Speed Rail Authority

### **Budget Changes proposed for Vote-only**

1. **Reappropriation of Federal Funds (May FL).** The Administration requests a reappropriation of federal funds originally appropriated in the 2003 Budget Act. The High-Speed Rail Authority (HSRA) indicates that \$359,832 of the \$1.2 million total funding was not encumbered by June 30, 2004. Federal funding was provided to support the final environmental impact report and environmental impact statement (EIR/EIS). These funds are needed to pay contractors to respond to remaining comments from the public following presentation of the draft EIR/EIS. If these funds are not reappropriated, the authority to spend them will be lost.
2. **Legal Defense of the Program Environmental Impact Report (part of BCP 1).** The HSRA is requesting a one-time augmentation of \$500,000 (Public Transportation Account) to prepare an administrative record for the defense of the EIR as well as respond to all lawsuits filed regarding the EIR.

Last year, the HSRA indicated additional funding was needed to complete the EIR, and the Legislature augmented the HSRA budget by \$720,000. The Governor vetoed this augmentation. The HSRA indicates that the EIR was delayed, which also delayed legal costs – \$300,000 budgeted in 2004-05 for legal costs was instead redirected to cover the cost of the completing the EIR.

3. **Next-Tier Environmental Impact Report (part of BCP 1).** The HSRA is requesting a one-time augmentation of \$1.7 million (Public Transportation Account) for the preparation of the “next-tier” program EIR to study the Central Valley to San Francisco Bay Area portion of the planned high-speed train route. If the State does move forward with construction of the high-speed rail system, a project-specific EIR will be required.

**Staff Comment:** While most of the proposed high-speed rail route map is detailed in the existing EIR, the Central Valley to San Francisco Bay Area portion was left unspecified due to controversy over some of the route options cutting through park land. The product of this request would be additional public hearings and a determination of the preferred route.

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**Staff Recommendation:** Approve request the Administration’s budget requests numbered 1, 2, and 3 above.

**Vote:**

**HSRA Budget Changes proposed for Discussion and Vote**

- 4. Financing Plan (part of BCP 1).** The HSRA is requesting a one-time augmentation of \$500,000 (Public Transportation Account) to prepare a financing plan for the high-speed train system. Current law provides for a proposition on the November 2006 ballot to provide \$9.95 billion in general obligation bonds for the high-speed rail and related rail projects.

**Staff Comment:** The HSRA indicates the bond was not an element in the Business Plan completed in 2000, and, therefore, no complete financing plan exists that includes the bonds. The bond for the project was originally scheduled for November 2004, before legislation delayed the election date to 2006. Current proposed legislation (AB 713, Torrico) would move the bond vote to 2008. If the bond vote is delayed, the benefit of a Financing Plan produced in 2005-06 is reduced, because it will become outdated, overtime (like the 2000 Business Plan).

**Staff Recommendation:** Staff recommends that the request be approved, but that provisional language be added that would prohibit expenditure of these funds if legislation is enacted in calendar year 2005 to postpone the 2006 bond vote.

**Vote:**

- 5. Southern San Joaquin Valley Study (Member Issue)** The Chair received a letter signed by Senator Ashburn, and Assembly Members Maze, Villines, Parra, Arambula, and McCarthy requesting funding for an alignment/station study for the Southern San Joaquin Valley. The current HSRA alignment plan does not include a station between Fresno and Bakersfield. This issue was also heard at the March 16, 2005, hearing and no action was taken. The HSRA indicates the study would cost \$650,000 and take 9 months to complete

The Assembly took an action to provide \$325,000 (Public Transportation Account) for this purpose, with the remainder of costs to be funded from reimbursements from local sources. The Assembly also added 0.5 positions for the HSRA.

**Staff Recommendation:** Conform to the Assembly Action.

**Vote:**

**2740 Department of Motor Vehicles****Budget Changes proposed for Discussion / Vote**

- 1. Vehicle Insurance Reporting (May FL).** The Administration requests an augmentation of \$4.1 million (special funds) and 9.5 positions to establish a new financial responsibility reporting and vehicle registration suspension program, pursuant to Chapter 920, Statutes of 2004 (SB 1500) and Chapter 948, Statutes of 2004 (AB 2709). Chapter 920 requires the DMV to verify insurance has been obtained within 30 days after issuance of a registration card and to suspend, cancel, or revoke the registration of a vehicle when it is determined that the vehicle insurance was canceled and not replaced. Chapter 948 requires the DMV to develop methods by which law enforcement officers may electronically verify that an insurance policy or bond has been issued for the vehicle. This funding will enable the DMV to expand insurance reporting capability for more insurers, develop a new registration suspension program, and construct a reliable interface with that information for use by law enforcement. The intent of this program is to reduce the number of uninsured motorists in California as well as vehicle insurance costs.

Budget Trailer language is proposed to postpone the implementation of the registration suspension provisions until the automated systems are ready.

The expenditure of these funds is also proposed to be subject to approval of a Feasibility Study Report by the Department of Finance.

**Staff Comment:** Staff in Senator Speier's Office who worked on SB 1500 indicate that the bill will result in savings to the State due to incentives that will increase the number of insured drivers and keep more uninsured drivers off the roads. This is expected to result in major savings in state Medi-Cal expenditures because more hospital costs will be paid by insurance companies instead of the State.

**Staff Recommendation:** Approve the Finance Letter funding and position request, but reject the trailer bill language that would postpone the implementation date for this Legislation.

**Vote:**

**2920 Commission of the Californias/Office of CA-Mexico Affairs****Issue for Discussion and Vote**

- 1. Elimination of the Commission of the Californias and the Office of California-Mexico Affairs (May FL).** The Administration requests approval of trailer bill language to delete statutory language related to these two bodies. The Commission of the Californias consists of 18 commissioners, including five Senators, five Assembly Members, the Lieutenant Governor, and seven appointments of the Governor. The Governor serves as Chair. The Office of California-Mexico Affairs (Office) incorporates the Commission of the Californias and the California Office of the Southwest Border Regional Conference. The general charge of the Office is to develop favorable economic, educational, and cultural relations with Baja California, Baja California Sur and other states and territories with the Republic of Mexico, and coordinate with other American boarder states. The Office was part of the Technology, Trade and Commerce Agency, and lost its funding and positions when that Agency was eliminated by Chapter 229, Statutes of 2003.

**Staff Recommendation:** Direct staff to draft trailer bill language to eliminate the Commission of the Californias, but to retain the Office of California-Mexico Affairs and move it into the Business, Transportation and Housing Agency.

**Vote:**

**8320 Public Employment Relations Board****Issue for Discussion and Vote**

- 1. Public Employer-Employee Relations Trailer Bill (Governor's Budget).** The Administration requests approval of trailer bill language related to public employer-employee relations. Among other provisions, this bill would do the following:
- Existing law authorizes the Governor and a recognized state employee organization, if, after a reasonable time, they fail to reach agreement, to mutually agree upon the appointment of a mediator, or either party to request the Public Employment Relations Board to appoint a mediator. This proposal would instead authorize the parties to request the Division of Conciliation of the Department of Industrial Relations to appoint a mediator.
  - Existing law provides that if the Public Employment Relations Board appoints the mediator, the costs of the mediation shall be paid by the board. This bill would split the costs one-half to the state and one-half to the recognized employee organization.

**Staff Comment:** The policy committee process seems more appropriate for this bill than the Budget Committee.

**Staff Recommendation:** Reject this trailer bill.

**Vote:**

**8380 Department of Personnel Administration****Issue for Vote Only:**

1. **Medicare Part B Augmentation (May FL).** The Administration requests an augmentation of \$1.1 million (General Fund) to reflect additional eligible employees and an increase in amounts paid for annuitants' Medicare Part B premiums in the Rural Health Care Equity Program.

**Staff Recommendation:** Approve the Finance Letter.

**Vote:**

**Issues for Discussion and Vote:**

2. **Rural Health Care Equity Program Reversion (May FL).** The Administration requests the reversion of approximately \$15.3 million in unexpended funds appropriated in past budget acts to support the Rural Health Care Equity Program. This program provides the subsidization and reimbursement of premium costs, deductibles, coinsurance, and other out-of-pocket health care expenses paid by employees and annuitants living in rural areas that would otherwise be covered if the state employee or annuitant was enrolled in a board-approved health maintenance organization plan. The Administration proposes trailer bill language to continuously appropriate \$15.3 million for continued claims against these funds, but indicates it is not expected there will be any expenditures from this new appropriation.

**Staff Comment:** While the Administration's proposal would continue the availability of the \$15.3 million for the Rural Health Care Equity Program, the LAO notes that existing Memorandums of Understanding (MOUs) with bargaining units specify a rollover of surplus funds rather than reversion to the General Fund. The benefit of this proposal is scoring General Fund savings, but this presumes no changes will occur in the future to increase claims on these funds. If these funds were fully expended in the future, the benefit of this proposal is unclear.

**Staff Recommendation:** Reject this Finance Letter proposal.

**Vote:**

- 3. Salary and Benefit Survey Funding (Staff Issue).** The Subcommittee may want to consider an augmentation of \$482,000 (\$241,000 General Fund) and 5.0 positions to allow the DPA to implement a comprehensive salary survey. This issue was discussed at the April 27 hearing and held open.

**Background / Detail:** DPA indicates that current law requires the Department to perform the following compensation surveys: an annual survey of occupations comparable to State civil service classifications (Government Code section 19826); and specific surveys included in the MOU's for the California Association of Professional Engineers (Unit 9) and the California Association of Professional Scientists (Unit 10), the annual Unit 5 Highway Patrol survey (Government Code section 19826).

To conduct a comprehensive survey of public and private employers, DPA indicates it would need 5.0 additional positions. Staffing at this level would allow DPA to complete surveys of 15 occupation-specific classifications per year, with detail comparable to the March 2005 Registered Nurses survey. The Nurses survey included regional data and "add-ons" to measure total compensation, not just salary. Since some of the workload would involve surveys of special-fund positions, DPA indicates the special funds could fund half of the cost.

**Staff Recommendation.** Augment the DPA budget by \$482,000 and 5.0 positions for the purpose of completing a comprehensive salary survey. Add provisional language to require DPA to report to the Legislature by March 1, 2006, on the specific positions surveyed in 2005-06 and the Department's plan for surveys in 2006-07.

**Vote:**



## **9955 Reduction for Employee Compensation**

The employee compensation reductions proposed by the Governor for 2005-06, are included in the Governor's Budget as item 9955 "Employee Compensation Reform." These savings include reductions due to: (1) the adoption last year of the Alternative Retirement Program, which reduces the State's costs for employees staying with the state less than two years; and (2) cuts to employee compensation such as shifting retirement costs to employees and authority to furlough employees without pay.

The Administration indicates that total savings of \$886.3 million (\$487.5 million General Fund) would be realized in 2005-06 if the proposals are approved in their entirety. These figures are adjusted from the Governor's Budget based on an April 1 Finance Letter from the Administration that reduced the anticipated 2005-06 savings from the Alternative Retirement Program by \$10.4 million. Savings from the Alternative Retirement program is an adjusted \$145 million (\$80 million General Fund) and savings from the cuts to employee compensation are \$741 million (\$407 million General Fund).

### **Issue for Consent / Vote Only**

- 1. Savings from the 2004 Alternative Retirement Program.** The Governor proposes to budget savings of \$145 million (\$80 million General Fund) from the Alternative Retirement Program enacted in August 2004 (SB 1105, Committee on Budget and Fiscal Review). The Administration requests the authority for the Director of Finance to reduce department budgets to capture this savings.

The Alternative Retirement Program generated long-term budget savings to support the issuance of pension obligation bonds that would provide General Fund relief in 2004-05. The Administration now expects the bonds to be sold in 2005-06 instead of 2004-05, and expects bond revenues to be \$560 million instead of \$929 million.

The program generates savings because, during the first 24 months of employment, neither the employer nor the employee make contributions to the California Public Employees' Retirement System. Instead, the employee contributes a portion of their salary to the Alternate Retirement Program. These funds are placed in a 401(a) account. The employer does not make a contribution to this plan, thus saving approximately 17 percent of its salary costs for the average miscellaneous employee. At the end of the 24-month period, the employee would be enrolled in the PERS system that would include both employer and employee contributions.

**Staff Comment:** This issue was heard at the April 27 hearing and held open.

**Staff Recommendation:** Approve this request.

**Vote:**

**Issue for Discussion**

- 1. Cuts to Employee Compensation.** The Governor proposes budget savings of \$741 million (\$407 million General Fund) from cuts to employee compensation. These reductions would be phased in as union contracts are renegotiated. The proposals are as follows:
- **Defined-benefit retirement plan changes for existing employees.** Beginning in 2005-06, the Governor proposes to require employees to pick up one-half of the total retirement charges approved by CalPERS (both the “normal cost” – current cost of future benefits and the unfunded liability). This would shift \$374 million (\$206 million General Fund) from the state to employees in 2005-06. Additionally, the Governor proposes to allow employees to opt out of CalPERS, with an estimated savings to the state of \$164 million (\$90 million General Fund).
  - **Five-day furlough of state employees.** The Governor proposes a five-day furlough of state employees to save the state an estimated \$109 million (\$60 million General Fund) in 2005-06.
  - **Eliminate leave from the overtime calculation.** The Governor proposes to eliminate holiday, sick leave, vacation, annual leave, and compensating time off, from the calculation of overtime. The Administration estimates this will generate 2005-06 savings of \$36.4 million (\$20 million General Fund).
  - **Health-benefit reductions.** The Governor proposes the following reductions to generate total 2005-06 savings of \$55.3 million (\$30.0 million General Fund):
    - New employees must work 6 months before health care is provided.
    - Enroll employees retired from the military in the federal health care program.
    - Reduce the amount the state contributes to health care by \$14.20/month. (Additional savings of \$102 million (\$37 million General Fund) related to this proposal are included in budget item 9800).
  - **Eliminate two state holidays.** The Governor proposes to eliminate two state holidays to save the state an estimated \$3.1 million (\$1.7 million General Fund).
  - **Cap the accrual of vacation and annual leave.** The Governor proposes to cap the accrual of vacation and annual leave at 640 hours. The Administration does not score any 2005-06 budget savings from this proposal.

**Staff Comment:** The Subcommittee may want to reject the trailer bill language and the related savings because this savings depends on the outcome of collective bargaining between the Administration and the state-employee bargaining units. It may be better to await the conclusion of contract negotiations and make any necessary statutory change in concert with legislative considerations of the MOUs.

**Staff Recommendation:** Reject the Administration’s trailer bill language and budgeted savings.

**Vote:**

**Control Section 3.60 Contributions to Public Employees' Retirement Benefits**

Control Section 3.60 of the budget bill specifies the contribution rates for the various retirement classes of State employees in the California Public Employees' Retirement System (CalPERS). CalPERS determines the rates in this section and updates the rates near the time of the May Revision. This section also authorizes the Department of Finance to adjust any appropriation in the budget bill as required to conform with changes in these rates.

**Staff Comment:** The State's contribution fluctuates from year to year as the performance of investment assets fluctuates with the market. At their April 19, 2005, meeting, the CalPERS Board adopted a new policy that spreads the System's market value asset gains and losses over 15 years rather than the current three years. This action will lower the volatility of employer's contributions and will adequately preserve the funded status of the plans. The Department of Finance reported in the May Revision that this new CalPERS policy will result in 2005-06 savings of \$251.5 million (\$152.7 million General Fund) – down from the \$2.7 billion (\$1.5 billion General Fund) included in the Governor's January Budget.

**Staff Recommendation:** Approve Control Section 3.60 with the revised CalPERS rates.

**Vote:**

**Attachment I****Medical Board: Medially Underserved Account Amendments****Business and Professions Code**

2154.4. (a) The Medically Underserved Account is hereby created in the Contingent Fund of the Medical Board of California.

(b) The sum of three million four hundred fifty thousand dollars (\$3,450,000) is hereby authorized to be expended from the Contingent Fund of the Medical Board of California on this program. These moneys are appropriated as follows:

(1) One million one hundred fifty thousand dollars (\$1,150,000) shall be transferred from the Contingent Fund of the Medical Board of California to the Medically Underserved Account on July 1, 2003. Of this amount, one hundred fifty thousand dollars (\$150,000) shall be used by the Medical Board of California in the 2003-04 fiscal year for operating expenses necessary to manage this program.

(2) One million one hundred fifty thousand dollars (\$1,150,000) shall be transferred from the Contingent Fund of the Medical Board of California to the Medically Underserved Account on July 1, 2004. Of this amount, one hundred fifty thousand dollars (\$150,000) shall be used by the Medical Board of California in the 2004-05 fiscal year for operating expenses necessary to manage this program.

(3) One million one hundred fifty thousand dollars (\$1,150,000) shall be transferred from the Contingent Fund of the Medical Board of California to the Medically Underserved Account on July 1, 2005. Of this amount, one hundred fifty thousand dollars (\$150,000) shall be used by the Medical Board of California in the 2005-06 fiscal year for operating expenses necessary to manage this program.

(c) Funds placed into the Medically Underserved Account shall be used by the board to repay the loans per agreements made with physicians.

(1) Funds paid out for loan repayment may have a funding match from foundation or other private sources.

(2) Loan repayments may not exceed one hundred five thousand dollars (\$105,000) per individual licensed physician.

(3) Loan repayments may not exceed the amount of the educational loans incurred by the physician applicant.

(d) Notwithstanding Section 11005 of the Government Code, the board may seek and receive matching funds from foundations and private sources to be placed into the Medically Underserved Account. The board also may contract with an exempt foundation for the receipt of matching funds to be transferred to the Medically Underserved Account for use by this program.

(e) Funds in the Medically Underserved Account ~~appropriated in subdivision (b) or received pursuant to subdivision (d)~~ are continuously appropriated for the repayment of loans per agreements made between the board and the physicians.

**Attachment II****Information Technology Projects Without Department of Finance Approval  
Budget Control Section****1. Adopt the following Budget Control Section:**

SEC. XX.XX It is the intent of the Legislature that departments follow state policy for requesting and approving new or modified information technology projects. It is the intent of the Legislature that the use of this budget control section is not a substitute for the submission of funding requests for information technology projects through the annual budget process. This budget control section shall be in use for only one year. For the 2006-07 budget, it is the intent of the Legislature to not approve additional funding for new or modified information technology projects that have not been approved by the Department of Finance prior to budget submission to the Legislature. Whenever an appropriation is made in this act for an information technology project which is more than the 2004-05 budget act appropriation for that project and the Department of Finance has not approved the project or its modifications prior June 1, 2005, the increased appropriation is authorized not sooner than 45 days after notification in writing by the Department of Finance to the chairperson of the budget committee in each house of the Legislature and the Chairperson of the Joint Legislative Budget Committee of its approval. The notification shall include, but is not limited to, (1) a description of the information technology project, (2) the approved project costs for 2005-06 and future years, and (3) the project's start and implementation dates.

(a) Consistent with state policy, departments are required to provide the information technology project documents to the Legislative Analyst's Office at the same time that the documents are provided to the Department of Finance.

(b) Information technology projects are exempted from this section if the Department of Finance, prior to June 1, 2005, directed the department responsible for managing the project to provide information technology project documents after the completion of specific project events.

(c) If the amount approved by the Department of Finance is less than the amount appropriated in this act, the department responsible for managing the project shall only spend up to the amount approved by the Department of Finance. Any remaining funds shall revert to the fund of appropriation at the time of project approval.

(d) On or before January 10, 2006, the Department of Finance shall report to the chairperson of the budget committee in each house of the Legislature and the Chairperson of the Joint Legislative Budget Committee of its actions to ensure that information technology projects are submitted and approved prior to submission to the Legislature for

budget action. The report shall include, but is not limited to, (1) identification of any new procedures it has implemented to ensure departments' compliance to the state's budget and information technology policies, and (2) actions it has taken to ensure that projects are approved prior to submission of budget proposals to the Legislature.

2. Revise the following BBL for item 2660-001-0042:

XX. Of the funds appropriated in Schedule (6) of this item, \$577,000 is for the deployment and maintenance of the Performance Measurement System. ~~These funds may not be encumbered or expended until the Director of Finance approves the Feasibility Study Report. The funds shall be made consistent with the amount approved by the Director of Finance, based upon the approval of the Feasibility Study Report.~~

### **Attachment III**

#### **Caltrans Equipment Program**

2660-002-0608

Provision 2:

Of the funds appropriated in this item, ~~\$75,000~~ \$97,000 shall be used for the reimbursement of the Office of State Audits and Evaluations within the Department of Finance by the Department of Transportation for consulting services related to the accounting and administration of the Equipment Services Program within the Department of Transportation. *The consulting services shall include an evaluation of the appropriateness of operating the Equipment Services Program as an Internal Service Fund. On or before January 10, 2006, the Department of Finance shall report to the appropriate fiscal and policy committees in the Legislature and the Legislative Analyst concerning their findings on whether the Internal Service Fund should be: (a) retained as is; (b) retained but modify; (c) discontinued, but retain certain features; or (d) discontinued completely.*